

## **Management Update: Complex Salesforce.com Deployments Will Cost You**

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**Organizations that have complex sales processes and are evaluating Salesforce.com need to weigh the cost of building and integrating custom applications in areas outside of its functional capacity before making a purchasing decision.**

## **ANALYSIS**

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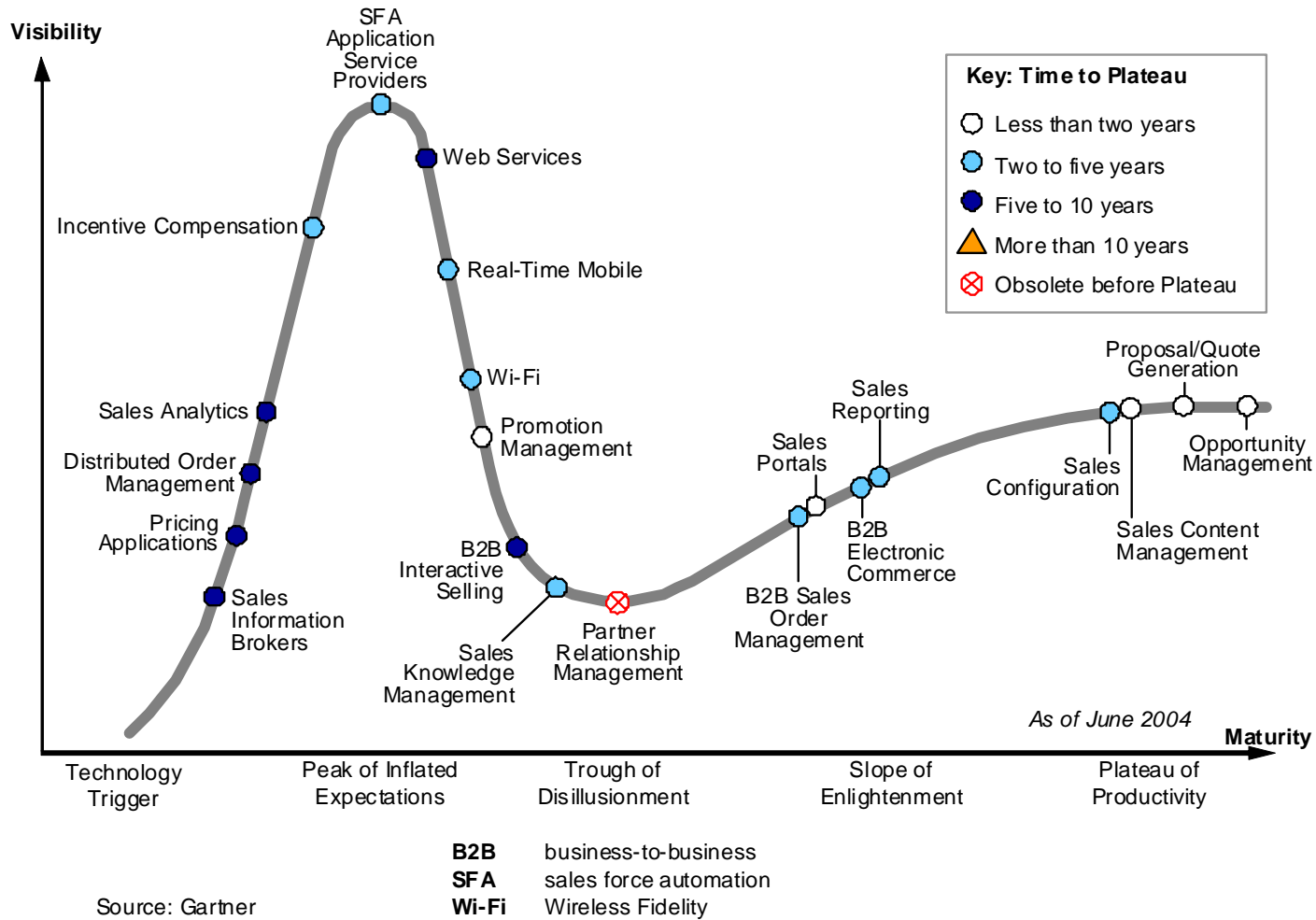
### **Rapid Revenue Growth**

Salesforce.com is increasing its revenue at 80 percent per year, with more than 13,000 companies using its subscription service. Gartner estimates that more than 80 percent of Salesforce.com deployments have fewer than 20 users, and these organizations have been well-served by Salesforce.com. As Salesforce.com attempts to move upmarket to larger, more complex selling organizations, customers should be aware of its limitations. Like many early-stage technologies, the reality of the application in some areas lags the expectations of the market.

### **Sales Hype Cycle**

The “no-software” application service provider sales force automation (SFA) approach, pioneered by Salesforce.com, is one currently at the pinnacle of the 2004 Gartner customer relationship management sales Hype Cycle (see Figure 1 and “Hype Cycle for CRM for Sales, 2004,” G00120930). No-software SFA has been a central theme of Salesforce.com since its inception. The core concept is that a user can point a browser, log on and have access to the Salesforce.com application and the application development environment. A fee is levied for this service, which increases depending on the complexity of the configuration that is deployed or the functionality required. Far from representing the end of software, the release of the Sforce and Customforce products (for integration and custom development) is a reassertion of the “build your own” functionality. The innovation is in the ownership of the software.

**Figure 1. 2004 Sales Hype Cycle**



In the application service provider model, the software is not housed on-site, but rather, is available over the Internet as a service. Although touted as a utility, it differs significantly from a utility in that the organization pays for each user who has a right to the application, regardless of whether and to what extent he or she uses the system. In a true utility, you pay for what you use. For example, in your house when electricity is not in use or water is not being consumed, the meter stops as well. This is not the case with this application service provider model.

### **Why Buyers Choose Salesforce.com**

Salesforce.com has an easy-to-use interface; functionality for opportunity, contact, account and pipeline management; and rapid deployment times. The system is available only as a service over the Internet. The high adoption rates and straightforward functionality excite sales executives, glad to have an application that salespeople will actually use. For basic functionality, Salesforce.com has performed admirably in restoring an interest in using an SFA tool. In many cases “no software” has been translated by sales executives to mean that they don’t have to wait in the long line of IT projects to get their SFA systems deployed, further enhancing the product’s appeal to business leaders. Once the basic system has been implemented, however, complex sales organizations find they are limited to basic SFA functionality. Salesforce.com does not have pre-built, functionally rich sales applications. It delivers a framework and the basics of SFA, leaving customers or third-party developers to build extensions or special-purpose applications to suit their needs.

### **What Salesforce.com Does Best and its Limitations**

Salesforce.com’s strength is that its templates for basic sales functionality enable salespeople to track accounts, contacts and opportunities as well as pipelines and forecasts, with minimal data entry. This is adequate functionality for some buyers, but not all. It is critical to know Salesforce.com’s limitations and set your expectations accordingly before committing to an investment.

The integration of multiple data sources to bring critical enterprise information to the point of sale is not impossible with Salesforce.com, but it has not yet been proven at an adequate number of large, complex sales organizations (those with more than 500 salespeople). Enterprise data may include:

- Pricing sequences and conditions, which generally reside in custom back-end systems, best-of-breed software or enterprise resource planning (ERP) solutions such as SAP and Oracle. The representation of the pricing must be stored in the local instance of the sales application, so no added burden is placed on the ERP system performance or the back end. Sample best-of-breed pricing software vendors include Zilliant, Metreo, Revenue Technologies and Vendavo.
- Price contract agreements, including entitlements, price conditions, warranties, terms and conditions (for example, recurring, nonrecurring and asset-based) in a contract management system. Best-of-breed management systems include diCarta, Oracle, I-many, Model N or Nextance applications.
- Production planning and scheduling information stored in logistics systems, most notably from, but not exclusive to, vendors such as i2 Technologies, Manugistics and SAP. A vendor needs the specific ability to translate this information out of the box to enable salespeople to make commitments to customers that can be fulfilled (ability to promise).
- Detailed quotation information, including all appropriate ship-to, inventory availability and replacement part alternates. There must be out-of-the-box schemas, with specific schema translations for releases of Oracle 11.5.10 and SAP 4.5 and later.

- Shopping cart data from an e-commerce system that can be transferred to a sales quotation application. A salesperson must be able to adjust the quote and send it back to the e-commerce shopping cart. This needs to be proven with multiple ERP systems and select e-commerce vendors such as IBM and Comergent Technologies.
- Product configuration rules that describe relationships between product attributes and components. These rules may reside in multiple back-end environments. A salesperson incorporates, then executes, these rules into a sale's quotation. This requirement is more sophisticated than launching a separate screen from a foreign application, and is directly related to having a schema that supports complex product definitions.
- Integration of syndicated point-of-sale data, especially from data sources such as Information Resources Inc. (IRI) and ACNielsen, to the sales application instance. The data then must be used by a salesperson in front of the customer to help sell and convey the value of product categories in a disconnected environment.
- Customer financial data, such as credit and payment history. This must be proven with prepackaged connectors in multiple installations against leading financial packages that may include (but are not exclusive to) Oracle 11i, SAP 4.5 and later, and PeopleSoft 8.4 or later.

As is often the case, enterprise data does not reside within the four walls of a legal corporate entity. Therefore, it is critical to integrate multiple supplier data sources outside what would be normally considered an enterprise firewall. Supplier data can then be used by salespeople, partners and customers to make purchasing decisions.

The functionality offered by Salesforce.com does little to help salespeople sell (for example, provide guided selling through analytics or market-basket analysis) or drive sales productivity (such as quotation generation, deal margin analysis or sales configuration). It lacks prepackaged functionality for the requirements of complex sales organizations, such as:

- Optimization of mission-critical workflows (such as a price approval authorization that requires tight integration with a price execution engine and a deal management platform).
- Implementation of high-value capabilities (such as quote generation, price management and order configuration).
- Sophisticated batch and real-time integration with leading enterprise applications (such as billing, debt management and custom profitability analysis).
- Vertical-industry-specific functions (such as trade promotions management for the consumer goods industry, or mobile quoting and contracting for the insurance industry).

Understand what functionality Salesforce.com can support and how much it will cost to enhance its offering to meet complex sales requirements (in some cases using third parties). Gartner inquiries from Salesforce.com customers include asking what they should do to make the transition from meeting the basic needs of their sales forces to responding to the higher demands of their businesses. Sales organizations that require more complex capabilities will depend on IT organizations to provide extended support for custom functionality and data integration. If you need this support, make sure your IT organization has dedicated sufficient resources to help.

Total cost of ownership (TCO) data for complex sales organizations indicate that once the budget for Salesforce.com is calculated beyond three years, the cost will be greater than that of a complete prepackaged solution. This is due to additional IT resources building future extensive customizations that are required to create a complete SFA solution (see "Sales Force Automation

Functional Building Blocks,” G00124471) that can handle the complexity of the business (see “Positioning SFA Vendors for Sales Organization Complexity,” M-22-6280) or expanding to other sales channels, such as partners (value-added resellers, dealers, distributors; see “Building Blocks of B2B E-Commerce and Partner Management,” G00123022).

To calculate your TCO if you have deployed Salesforce.com, include costs to make the transition from a tactical tool to a more strategic complete solution if you envision this will be necessary (with or without Salesforce.com). For Salesforce.com customers that are experiencing the limitations of the solution, step back and reassess your strategy. Evaluate the cost and complexity of building custom applications and integrations using Sforce (Salesforce.com integration platform) and Customforce (Salesforce.com customization toolset) vs. starting with a new implementation using proven enterprise solutions from vendors such as Oracle, SAP and Siebel Systems.

Users have begun to use Sforce and Customforce to develop simple customizations for user screens and data access, and Gartner believes more robust, complex customizations will soon become available from systems integrators. By 2008, three major external service providers will launch practices around Salesforce.com (0.7 probability). This will help Salesforce.com users whose needs exceed the product’s base functionality, but will come at a cost. Gartner believes these customized Salesforce.com solutions will be decidedly more expensive than competitors’ solutions that do not require customization to build what is readily available as part of the base application.

**If you have deployed Salesforce.com:** If you have no advanced requirements for large, complex sales organizations, no action is required at this time except to assess your long-term return on investment and evaluate alternatives at the three-year point. If you have these requirements, reassess the cost implications of customizing your Salesforce.com deployment, paying particular attention to:

- Sales execution capabilities such as price management, sales configuration and order management
- Deep access to data and processes in an installed ERP system such as SAP and Oracle
- A new corporate initiative for a global CRM strategy that includes marketing and customer service

#### **If you have not deployed Salesforce.com**

Consider the advice given here. If your three-year to five-year plan includes any of the advanced components (such as pricing execution or quotation management) described, be aware that this is a tactical solution that will require transition to a more robust solution if your requirements deepen in the three-to-five-year planning horizon, or prepare to at least double your investment to customize the base application using Customforce.

#### **Consider Alternatives**

- If you are in these industries and require vertical-specific functionality: Food, beverage, consumer durables, footwear and apparel, pharmaceuticals, automotive, aerospace, insurance, telecommunications, healthcare and (to a lesser degree) financial services. Salesforce.com will not provide you with needed vertical functionality.
- If you have requirements to integrate partners or e-commerce, Salesforce.com’s functionality will not support your needs. The cost to customize would not be economically practical in time to meet the needs of your business when compared to

vertical multisales channel packages such as Siebel for Financial Services, SAP CPG and Oracle for High Technology.

### Bottom Line

Salesforce.com is a good fit for sales organizations that want a quick-to-deploy, easy-to-use system for managing a basic sales process. However, large, complex sales teams deploying Salesforce.com will have difficulty if sales skills and functional requirements evolve. Gartner believes that within three years of an initial Salesforce.com deployment, more than 60 percent of large sales organizations will find their costs double due to customization and integration costs to replicate a prepackaged software solution designed for complex sales organizations. Clearly understand your strategic 24-month to 36-month requirements prior to investing in Salesforce.com to ensure you meet your short-term goals.

Analytical sources: Robert P. Desisto, Joe Galvin, Michael Maoz and Ed Thompson, Gartner Research

This research is part of a set of related research pieces. See "Inside Gartner Top View" for an overview.

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